

VZCZCXRO4888
PP RUEHCN RUEHDT RUEHHM
DE RUEHCHI #0034/01 0690853
ZNR UUUUU ZZH
P 100853Z MAR 09
FM AMCONSUL CHIANG MAI
TO RUEHC/SECSTATE WASHDC PRIORITY 0992
INFO RUEHKO/AMEMBASSY TOKYO PRIORITY 0050
RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHCHI/AMCONSUL CHIANG MAI 1074

UNCLAS SECTION 01 OF 03 CHIANG MAI 000034

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [PREL](#) [PGOV](#) [JA](#) [TH](#)

SUBJECT: DESPITE FTA, LITTLE GOOD NEWS IN THAI-JAPAN ECON RELATIONS

REF: A. 08 CHIANG MAI 160 (LAMPHUN: POTENTIAL AND INVESTMENT)

[1](#)B. 08 CHIANG MAI 123 (INDUSTRIAL ZONE IN LAMPHUN)

CHIANG MAI 00000034 001.2 OF 003

Summary and Comment

[1](#)1. (SBU) Summary: With the Thai-Japanese free trade agreement in place since 2007, and with 2009 designated as the Japan-Mekong Exchange Year, hopes have been high in northern Thailand for a strengthening of the Thai-Japanese bilateral economic relationship. However, a variety of factors including only modest momentum from the FTA, investment fears surrounding Thailand's political climate, and anemic RTG stimulus efforts caused Thai-Japanese economic relations to flounder. In northern Thailand specifically, Japanese and Thai officials have made local efforts to improve conditions, but the net impact has been weak at best.

[1](#)2. (SBU) Comment: While the global economic recession casts a pall over all economic activity, the seizure of Suvarnabhumi Airport in Bangkok last November by the People's Alliance for Democracy continues to have a significant impact on the Japanese business community's psyche vis-à-vis Thailand. Thailand will have to implement effective policies -- both nationally and locally, addressing political stability and economic stimulus -- to remedy how the GOJ and private Japanese investors view the country and the northern region as destinations for their investments. If Thailand falls short of this objective, the Thai-Japanese economic relationship may suffer more over the long term. End Summary and Comment.

High Expectations, Harsh Reality

[1](#)3. (SBU) Last year was an optimistic one for Thai-Japanese economic relations. 2008 started with the Japan-Thailand Economic Partnership Agreement (JTEPA), effectively a free-trade agreement between the two countries that was already in force since October 2007. Japan was also preparing for its Japan-Mekong Exchange Year in 2009, during which it planned to invest more time, effort, and money into expanding its policy interests in the Greater Mekong Subregion (GMS) through such initiatives as promoting more trade and investment in the region, within which Thailand is a key economy. However, the optimism at the outset of last year has dissipated. After encouraging increases in 2007 in Thai exports to Japan (11%) and Japanese exports to Thailand (18%), those figures dropped sharply in 2008 (down 19% and 29%, respectively).

JTEPA: An FTA Without Much Punch

[1](#)4. (SBU) Implemented in October 2007 with little opposition and

high hopes, JTEPA has had positive but modest effects on bilateral trade. Chiang Mai Province's Commercial Office Director gave credit to JTEPA, stating that it has boosted northern Thai exports, particularly in goods such as mangos, spa products, and handicrafts. The Commercial Officer of the Japanese Consulate General in Chiang Mai pointed to the flexibility of the agreement (namely, its stipulation for talks every 10 years to review and update JTEPA) and its provisions on trade in services, such as more relaxed work experience requirements for Thai cooks going to work in Japan, as JTEPA's high points.

15. (SBU) Private sector perspectives on JTEPA were not so positive, however. Two northern Thai companies that are exporters to Japan noted that the agreement has done nothing for them. Thai-Nichi Industries, a Lamphun-based producer of rice biscuits and snacks, stated that its products were already designated as duty-free for export to Japan, so JTEPA added no value for the firm. Speaking with her Thai rice suppliers' interests in mind, Thai-Nichi's Managing Director said that where progress should be made in JTEPA is on greater access for Thai rice producers to export to Japan. The GOJ did not make concessions on rice trade in the current manifestation of the JTEPA, but said that in the next round of talks in 2017, it might be open for discussion.

16. (SBU) Chiang Mai Frozen Foods, which exports frozen vegetables and fruits to Japan, also noted that its goods already were entering Japan duty-free before JTEPA went into effect. A company source said that although JTEPA has not had a positive impact on exports to Japan, Japanese fears about Chinese food contamination have. The source said that Japanese importers are buying more from Thailand as fears of Chinese safety standards persist. Chiang Mai Frozen Foods experienced 10% growth in profits last year.

17. (SBU) Others fear that what few positive aspects exist in

CHIANG MAI 00000034 002.2 OF 003

JTEPA may be at risk anyway. A Chiang Mai Chamber of Commerce source said that the current global economic crisis could have negative impacts on how the Japanese view the agreement. Specifically, she worries that Japan may retreat from its progressive provisions on trade in services by closing access to Thai migrant labor as Japanese unemployment rises. She also commented that while the agreement offers some preferential trade access for northern Thai handicraft producers, Japanese rules of origin requirements are complicated and burdensome for Thai exporters.

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Investor Worries Persist After Airport Closure
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18. (SBU) While JTEPA offers modest improvement in the Thai-Japanese economic relationship, the current state of Japanese investor confidence in Thailand is a gloomy picture. Although Thailand would like the world to leave the November 2008 Suvarnabhumi Airport closure in Bangkok as a distant memory, the political incident is still fresh in the minds of Japanese investors. According to the Japanese Investors Club President for Chiang Mai and Lamphun, Japanese investors are still worried about the political situation in Thailand and "the airport closure remains a shock to them." He noted that while Japanese business people living in Thailand are more knowledgeable and sanguine about internal Thai politics and the current state of affairs, Japan-based executives still have unclear and pessimistic perspectives on the situation. Our Japanese Consulate contact said that without any arrest or legal action taken against the protestors who seized the airport, foreigners will continue to fear another airport closure. He said that Japanese investors remain very concerned about Thai political instability.

19. (SBU) Following the airport closure, Japanese and other foreign investors called for a meeting with RTG officials to

discuss what measures would be taken to prevent a future closure, according to the Japanese Investors Club. The Club President said since that meeting, there has been no action by Thai officials. The Japanese Consul General in Chiang Mai has called for airlines to explore starting non-stop service between Chiang Mai and Japan in an effort to provide more air transport links independent of Suvarnabhumi Airport; however, because of poor economic conditions, no airlines have expressed interest in doing so. (Note: Chiang Mai International Airport is one of Thailand's largest after Suvarnabhumi, providing non-stop service to Laos, Malaysia, Singapore, South Korea, and Taiwan.)

¶10. (SBU) In January, the Airport Authority of Thailand in Chiang Mai conducted a seminar on air travel and transportation issues; however, the authority did not disclose any measures to address possible future airport closures, fueling the fears of many Japanese investors. The Thai Board of Investment's Northern Regional Office Director said that she was disappointed after the seminar that no specific measures were underway in the airports to build foreign investor confidence. The only change cited was that the RTG gave authority to airport officials to arrest invaders and hand them over to the police.

Stimulus Aid Offers Businesses Little, Demands A lot

¶11. (SBU) Japanese investors have another headache in trying to juggle the strains of the global economic crisis with slow implementation of the Thai economic stimulus package. Sources at MuRata, a Japanese auto parts producer located in the Northern Regional Industrial Estate (NRIE) in Lamphun, said that exporting firms there are addressing the need to reduce their workforces. He said that firms are reluctant to make layoffs, so they have been offering voluntary resignation packages to employees - acceptance of which has ranged from 10-80%, depending on the firm and how the crisis has affected its production. Our source estimates that, on average, one in five employees at the NRIE has resigned.

¶12. (SBU) While voluntary resignations have lessened payroll burdens, MuRata sources said that firms will nonetheless have to face the reality of layoffs. The RTG's recent economic stimulus policy is trying to address this reality while avoiding an increase in unemployment. In particular, the RTG is requesting that firms considering layoffs instead send at-risk employees to temporary, government-funded training programs in order to keep the employees in the labor force while also lessening the firm's financial burden.

¶13. (SBU) The problem from Japanese and other foreign firms' perspectives, however, is that the RTG is vague about the policy's implementation. When MuRata asked the Federation of Thai Industries (FTI) -- the organization that is liaising between individual firms and the RTG -- when, where, on what

CHIANG MAI 00000034 003.2 OF 003

subjects, and for how long the training would be, the FTI could not answer and said nothing had been decided. Yet if a firm wishes to participate in the program it must agree to no layoffs for the next year. MuRata said that it would not participate in the program without first getting more answers.

¶14. (SBU) The company complained further that the RTG and local government in Lamphun were ignoring its and other foreign firms' ideas for alternative ways to ease the pain of the economic crisis. Specifically, MuRata noted that two of its biggest costs are the land and building taxes at the NRIE. If either or both could be reduced temporarily, it would be welcome relief for foreign firms there. However, when some Japanese firms raised this with the Thai Board of Investment, the Board referred them to the local sub-district government in Lamphun that sets the tax rates. Yet when approached on the matter, the sub-district director said the issue was above his authority and should be taken up with the central government. When the firms then approached the RTG directly, they were again advised that

it was a local government issue; so they gave up.

Long-Term Prospects

¶15. (SBU) Thai analysts are trying to see the bright side of Japanese investors' impressions on Thailand, however. One economics professor from Chulalongkorn University in Bangkok told us he believes firmly that Japanese investors still look at Thailand as a "sound site for investment" in Southeast Asia, despite last year's political turbulence. He said that the Japanese private sector in Thailand will continue to push the Thai private and public sectors to improve the environment for expanded Japanese investment. He also believes that Thailand is still Japan's best bet in Southeast Asia, compared to Vietnam with its inflation-related risks and Malaysia and Indonesia with their focus on Islamic trading networks.

¶16. (U) This cable was coordinated with Embassies Bangkok and Tokyo.
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